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RR RUEHLN RUEHVK RUEHYG
DE RUEHYE #0415/01 1420240
ZNR UUUUU ZZH
R 210240Z MAY 08
FM AMEMBASSY YEREVAN
TO RUEHC/SECSTATE WASHDC 7553
INFO RUCNCIS/CIS COLLECTIVE
RUEHIL/AMEMBASSY ISLAMABAD 0006
RUEHBUL/AMEMBASSY KABUL 0022
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC
RHEHNSC/NSC WASHDC

UNCLAS SECTION 01 OF 03 YEREVAN 000415

SENSITIVE

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H PASS TO CODEL SCHIFF

E.O. 12958: N/A

TAGS: [PHUM](#) [PGOV](#) [PREL](#) [OTRA](#) [OVIP](#) [KDEM](#) [AM](#)

SUBJECT: SCENESETTER FOR CODEL SCHIFF, MAY 24-25, 2008

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(U) Sensitive but unclassified. Please protect accordingly.

11. (SBU) SUMMARY: Your visit comes during a critical phase in post-independence Armenia's political development, and democracy is firmly at the top of the U.S. agenda. After flawed and hotly disputed presidential elections February 19, violent clashes, a 20-day state of emergency, and the arrest of more than 100 political prisoners, the new government's democratic legitimacy is badly damaged. We have urged Armenian officials to take bold action to repair the damage and rebuild legitimacy. To date, they have not. Post would warmly welcome the CODEL's assistance in underlining the seriousness of the U.S. commitment to democracy and human rights, and in conveying to Armenian officials that there is much work to be done. Without carrying out significant reform and a restoration of democratic freedoms, the new President will remain plagued by questions of legitimacy, and will not be the strong partner we need to address the Nagorno-Karabakh conflict and other key regional issues. END SUMMARY

MANY ISSUES, BUT DEMOCRACY IS TOP PRIORITY

12. (SBU) A FULL BASKET: We have a number of important policy interests in Armenia, but Armenia's dismal political situation has captured top billing in our agenda. But let us begin with a quick overview of our other priorities before outlining the political history and challenges (starting at paragraph 7).

13. (SBU) PEACE, INDEPENDENCE, AND PROSPERITY: We work to enhance regional peace and stability through the Nagorno-Karabakh peace negotiations (the Minsk Group process, of which the U.S. is a co-chair) and through diplomacy and civil society programs to foster normalized relations with Turkey. We have had wide-ranging programs to develop free markets and a diversified economy. We support Armenia's energy independence and have extensive cooperation to promote nuclear power safety, including a safe replacement for the Metsamor nuclear power plant. We have had good case-by-case cooperation on law enforcement: Armenia has helped us prosecute cases of Armenians wanted for crimes in the U.S.

14. (SBU) DEFENSE, SECURITY, AND RULE OF LAW: Through U.S. assistance, we have worked with judges, prosecutors, and defense attorneys to improve the rule of law, though Armenia has a very long way to go in this sphere. Military engagement and assistance (FMF/IMET) is aimed at promoting Western-style reforms, NATO inter-operability, democratic and human rights values, and accelerating Armenia's growing peacekeeping capabilities. We have a new USAID program just getting started to help Armenia combat its endemic corruption, which is deeply rooted in almost every aspect of Armenian governance and society. We have a robust and wide-ranging

democracy and governance program that included \$7.6 million over the last three years to help Armenia prepare for the May 2007 parliamentary and February 2008 presidential elections. Other democracy and governance programs focus on civil society, youth, and women's empowerment initiatives.

¶15. (SBU) MILLENNIUM CHALLENGE COMPACT: The \$236 million Millennium Challenge Compact signed in November 2006 is focused on rural poverty, and is slated to build hundreds of miles of rural roads and irrigation systems, while also providing training to Armenian farmers. The Millennium Challenge program may be in jeopardy, however, because of Armenia's dismal performance in the 2008 elections and post-election crisis, on top of what was already a weakening scorecard on the standard MCC eligibility indicators. We have foreshadowed to the Armenian government that we intend to give the new president sufficient time to correct problems before taking any irrevocable action, but the September 2008 MCC Board meeting in Washington will take a hard look at Armenia's continued eligibility for MCC.

ARMENIA'S FOREIGN POLICY AND GEOPOLITICAL REALITY

¶16. (SBU) Armenia's stated foreign policy is one of "complementarity," in which Armenia seeks to develop strong relations with Russia, the U.S., the EU and Iran. As difficult as it is to balance these often competing interests, Armenia is, for the most part, succeeding. It continues to rely on Russia as its "strategic partner" while moving forward in its relationship with NATO. Armenia is developing its energy relationship with Iran while staying within the Russian fold. Pressure from Russia is increasing, however, and Armenia is finding it difficult to maintain this balance. President Sargsian's desire to continue building ties with the West may also be diminished in the face of (deserved) Western pressure over Armenia's poor democratic and human rights

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record in the wake of the 2008 election.

DEMOCRACY AND POLITICAL CRISIS

¶17. (SBU) WHERE WE ARE TODAY: Armenia's political situation simmers with discontent over the flawed presidential election of February 19, 2008, and its violent aftermath. President Sargsian faces a crisis of legitimacy due to the popular conviction that he stole the election, and outrage over the government's zeal in cracking down on opposition protests after the fact. Authorities have arrested dozens of opposition politicians, activists, and sympathizers on mostly specious political charges. More than 100 remain in jail. The State of Emergency decreed by then-President Robert Kocharian on March 1 -- after a violent clash between protesters and police -- enforced a media black-out on any political opinion other than the government's point of view, while banning all political rallies. The ban was enforced by massed troops and riot police posted around Yerevan. While the worst of the state of emergency has passed, a de facto ban on public demonstrations remains in effect. Despite several years of solid economic growth and improved standards of living, a new wave of Yerevan intelligentsia are actively pursuing emigration abroad -- shocked and disgusted by the political situation.

¶18. (SBU) UNREPRESENTATIVE DEMOCRACY: Aside from the Heritage Party (which holds seven of 131 parliamentary seats) virtually the entire National Assembly is part of the governing coalition. With Armenia's electorate now seriously polarized -- we lack hard data, but opposition sympathizers probably number around 50 percent of voters -- there is a massive imbalance between the opposition's popular support and its nearly complete exclusion from meaningful representation in government.

¶18. (SBU) HOW WE GOT HERE: Ex-President Levon Ter-Petrossian's late-summer 2007 re-entry in active politics jolted the Armenian electorate from its previous lethargy. Despite having himself been driven from office in 1998 amid charges of corruption and of having stolen his own reelection, Ter-Petrossian brought stature and

credibility that other opposition leaders lacked, and inspired a disaffected segment of the population with a new belief in the possibility that PM Serzh Sargsian's ascension to the presidency was not a foregone conclusion. Sargsian's partisans responded to that challenge with heavy reliance on "administrative resources," voter intimidation, heavily biased media coverage, and vote tabulation fraud to produce a tainted first-round majority of 52.8 percent of votes cast. International reaction to the result was initially driven by an unduly positive preliminary report issued by the joint international (OSCE, Council of Europe, European Parliament) observation mission on February 20, before many of the worst abuses had come fully to light, and by a spurious exit poll attributed to a little-known British firm that was paid by pro-government forces. The extent of serious flaws became more clear over time. Our assessment is that the presidential election was significantly worse than the May 2007 parliamentary election, which we had viewed as a modest step forward.

¶10. (SBU) POST-ELECTION PROTESTS AND CLASHES: Ter-Petrosian and his allies began daily protest rallies the day after the disputed election, occupying the downtown Freedom Square (aka Opera Square) with their peaceful protest continuously from February 20 through March 1. These daily rallies attracted anywhere from 40,000-70,000 each afternoon, while a hard core of 500-2,000 supporters remained encamped overnight to hold the square. Early in the morning of Saturday, March 1, police cleared Freedom Square, employing brutal force, and placed Ter-Petrosian under house arrest.

¶11. (SBU) AND AFTERMATH: By mid-afternoon March 1, a new crowd of Ter-Petrosian supporters had gathered -- more or less spontaneously -- in the vicinity of the French, Italian, and Russian Embassies, near City Hall. A core group of thuggish mid-level organizers, possibly including veterans of the Nagorno Karabakh war, set up barricades and deployed Molotov cocktails and other improvised weapons, but the vast bulk of the crowd (which numbered up to 20,000) were ordinary, outraged Armenian citizens. The standoff was eventually resolved -- after hours of standoff, fierce skirmishes, scattered looting, and incidents of mob violence -- in the pre-dawn hours of March 2, but not before at least ten Armenians, including two police officers, had been killed. President Kocharian declared a State of Emergency (SOE) late in the day on March 1, and army units were sent to Yerevan to quell the violence.

¶12. (SBU) QUIET BUT NOT CALM: This series of dramatic events left in its wake an Armenian electorate divided between rage and insecurity. The government fears, not without reason, the risk of

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new, sudden eruptions of political violence and popular outrage, although things seem to have settled into an uneasy calm for the time being. Ter-Petrosian and his allies predict that the Sargsian government will soon collapse. The semi-oppositional Armenian Revolutionary Federation (Dashnaksutyun) and Rule of Law (Orinats Yerkir) parties have joined the governing coalition, but neither commands broad-based popular support or significant legitimacy. The Orinats Yerkir party, in particular, seems to have lost most of what popular support it previously had by joining the coalition. Only the tiny Heritage Party remains as a true oppositional force in parliament. Heritage endorses a moderate, reformist political agenda.

¶13. (SBU) URGENT REFORMS NEEDED: We have urged the government to focus on bold political reforms that could relieve public anger and build new political legitimacy by addressing the most egregious elements that enrage Armenians. Steps we have urged include investigating and prosecuting pro-governmental as well as opposition figures for election-related violations, restructuring public television and radio to eliminate the strongly pro-governmental bias, restoring the television license (revoked for political reasons in 2002) of the pro-opposition AlPlus news agency, and launching a credible public inquiry into the events of March 1-2. Overhauling the corrupt customs and tax agencies would be another way to win over skeptical voters, and there have been some early indications of government steps toward this end. We remain concerned that the government's strategy appears to rely on hunkering down and riding out the crisis, relying heavily on its

police and security service tools to quash dissent, and entrench itself firmly in power at all costs. While the Ter-Petrosian led opposition is not comprised of angels -- and Ter-Petrosian's own record as president in the 1990s leaves much to criticize -- it is fundamentally the government's responsibility to uphold human and political rights. As of right now, this government has failed to do so, and shows little sign of willingness to mend its authoritarian ways.

PENNINGTON